

Message Text

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44

ACTION EUR-12

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SUBJECT: EUROPEAN MONETARY SNAKE--PROSPECTS FOR SWISS ASSOCIATION

REFS: A. EC BRUSSELS 6332 B. EC BRUSSELS 6273

C. BERN 2851 D. LUXEMBOURG 534 E. BRUSSELS 6413

1. SUMMARY: SWISS MISSION AND EC COMMISSION OFFICIALS
EXPECT THE SWISS FRANC TO BECOME ASSOCIATED WITH THE
SNAKE THIS YEAR, PROVIDED FRENCH ECONOMIC AND EXCHANGE

RATE SITUATIONS DO NOT DETERIORATE. THE SWISS CONTINUE TO
BE INTERESTED IN ASSOCIATION AND ARE PREPARED TO MEET WITH
EC FINANCE MINISTERS ON SEPTEMBER 22. THE FRENCH ARE NOT
EXPECTED TO MAKE SWISS FISCAL REFORMS PRIOR CONDITIONS TO
ENTRY BUT THEY MAY USE THESE ISSUES TO DRAG OUT
DISCUSSIONS. END SUMMARY.

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2. SWISS MISSION OFFICIALS, WHO ARE IN CLOSE CONTACT

WITH TOP GOS OFFICIALS IN BERN, ARE CAUTIOUS OVER THE PROSPECTS OF SWISS ASSOCIATION WITH THE SNAKE NOW THAT FRANCE HAS RE-ENTERED THE SNAKE. THE GOS CONTINUES TO BE INTERESTED IN ASSOCIATION AND WELCOMES THE OPPORTUNITY TO MEET ON SEPTEMBER 22 WITH EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS WHO ARE PARTICIPATING IN THE SNAKE. THE SWISS PLAN TO REFUSE TO NEGOTIATE ON SPECIFIC ISSUES SUCH AS TAX MEASURES OR BANKING SECRECY REGULATIONS. THE GOS IS DETERMINED NOT BE PUT IN THE POSITION OF HAVING TO BUY ITS WAY INTO THE SNAKE. SWISS OFFICIALS HERE EXPECT THE FRENCH TO DRAG OUT THE DISCUSSIONS UNTIL AT LEAST THE END OF THE YEAR. AT THAT TIME THE FRENCH MAY AGREE TO SWISS ASSOCIATION, BUT THIS WILL DEPEND ON THE STRENGTH OF THE FRENCH FRANC.

3. EC COMMISSION OFFICIALS GENERALLY ARE OPTIMISTIC ABOUT THE CHANCES OF SWISS ASSOCIATION. THEY BELIEVE SWISS ENTRY WILL BE ACCEPTED SOMETIME DURING THE SECOND HALF OF THIS YEAR, UNLESS THERE IS A DETERIORATION IN FRANCE'S ECONOMIC SITUATION AND EXCHAGNE RATE. THESE OFFICIALS SAY FRANCE CANNOT REASONABLY MAKE SWISS FISCAL REFORMS A PRIOR CONDITION TO ENTRY BECAUSE SUCH DEMANDS ARE POLITICALLY UNREALISTIC AND THE TECHNICAL REQUIREMENTS FOR SWISS ASSOCIATION ARE VIRTUALLY RESOLVED. NEVERTHELESS, FRANCE IS EXPECTED TO ASK THE GOS TO DISCUSS THESE BROADER ISSUES, WHICH COULD DELAY A DECISION ON SWISS ASSOCIATION.

4. COMMISSION OFFICIALS CONTINUE TO EXPRESS CONCERN OVER THE FUTURE STABILITY OF THE FRENCH FRANC. THEY NOTE THAT FRENCH-US INTEREST RATE DIFFERENTIALS ARE AMONG THE HIGHEST IN THE EC. FRANCE, HOWEVER, IS LIKELY TO REDUCE ITS INTEREST RATES IN ORDER TO STIMULATE ECONOMIC RECOVERY WHILE AT THE SAME TIME US RATES ARE LIKELY TO RISE. THIS COULD TRIGGER A FLOW OF CAPTIAL OUT OF FRANCE. IN ADDITION, THEY SEE FRENCH DOMESTIC ECONOMIC AND SOCIAL CONDITIONS AS SHAKY. GOF RESERVE HOLDINGS OF DOLLARS ARE HIGH, HOWEVER, LIMITED OFFICIAL USE

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WHICH SHOULD ENABLE FRANCE TO KEEP THE FRANC WITHIN THE SNAKE. HOWEVER, SHOULD IT HAVE TO INTERVENE HEAVILY, FRANCE IS EXPECTED TO RESIST TAKING IN A NEW SNAKE MEMBER THAT MIGHT PUSH UP THE SNAKE'S CENTRAL RATE.

5. THE COMMISSION STRONGLY FAVORS SWISS ASSOCIATION AS LONG AS TWO CONDITIN ARE MET: 1) THE GOS

AGREES TO COOPERATE WITH THE EC IN MONETARY POLICY;
AND 2) IF NECESSARY, THE SWISS WILL INTERVENE TO
SUPPORT WEAKER SNAKE CURRENCIES. THE GOS APPEARS TO
BE AGREEABLE ON BOTH OF THESE POINTS. COMMISSION
OFFICIALS HOPE THAT ITALY AND EVENTUALLY THE UK WILL
RE-ENTER. BROADENING THIS BLOC, THE COMMISSION
BELIEVES, WILL ENHANCE EUROPEAN TRADE AND HELP RESTORE
ECONOMIC CONFIDENCE IN GENERAL. IN ADDITION, IT WILL
PUT THE EC IN A STRONGER NEGOTIATING POSITION VIS-
A-VIS THE US IN ITS EFFORTS TO SEEK US COOPERATION IN
STABILIZING THE DOLLAR RATE.

6. THE COMMISSION OBTAINED THE FINANCE COUNCIL'S
AGREEMENT ON JULY 10 THAT EC INSTITUTIONS SHOULD HAVE
THE FINAL SAY REGARDING SWISS ASSOCIATION. THE COUNCIL
ASKED THE BOARD OF THE EUROPEAN MONETARY COOPERATION
FUND TO LLIK INTO THE ISSUE OF SWISS ASSOCIATION
AND REPORT TO THE NEXT COUNCIL MEETING. THE FUND'S
BOARD IS COMPOSED OF THE EC CENTRAL BANK GOVERNORS,
WHO HAVE ALREADY SUBMITTED A DETAILED REPORT ON
SWISS ENTRY. THUS, OFFICIALS HERE DO NOT EXPECT THE
BOARD'S REPORT TO RAISE ANY NEW ISSUES.
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